

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Genesee County Drain Commissioner Storm Water Management System, Division of Surface Water Management	County Genesee
Audit Date December 31, 2005	Opinion Date April 13, 2006	Date Accountant Report Submitted To State: June 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

**Genesee County Storm Water
Management System**
**(Genesee County Drain Commissioner Division of Surface
Water Management)**

**Financial Report for the
Year Ended December 31, 2005**

Genesee County Storm Water Management System

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Independent Auditor's Report

To the Genesee County Board of Commissioners
Genesee County Storm Water Management System

We have audited the accompanying basic financial statements of Genesee County Storm Water Management System (Genesee County Drain Commissioner Division of Surface Water Management) as of December 31, 2005 and for the year ended, as listed in the table of contents. These financial statements are the responsibility of Genesee County Drain Commissioner Division of Surface Water Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Genesee County Storm Water Management System as of December 31, 2005 and the changes in financial position, including cash flows, for the 15 months then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Genesee County Storm Water Management System. We did not examine this data and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

April 13, 2006



A worldwide association of independent accounting firms

Genesee County Storm Water Management System

Management's Discussion and Analysis

Using this Annual Report

The Genesee County Storm Water Management System (the "System") is the organization of storm water management services within Genesee County. The System was established in 2001 by the Genesee County Board of Commissioners (the "Board") under and pursuant to Act 342, Public Acts of Michigan 1939, as amended. The primary role of the System is to enable Genesee County (the "County") and the cities, villages, townships, and charter townships located within Genesee County ("Member Communities") to comply with the U.S. Environmental Protection Agency's Phase II Regulations. The activities to comply with the regulations include: (a) public education and participation, (b) monitoring and mapping, which involves illicit discharge detection and elimination, and (c) best management practices for storm water discharge management controls. The Genesee County Drain Commissioner is designated by the Board as the County agency responsible for the operation of the System.

This annual report consists of a series of financial statements and notes. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the System. This is followed by the statement of cash flows, which presents detailed information about the changes in the System's cash position during the period. The next section includes the notes to the financial statements, which disclose the System's significant accounting policies and additional information related to certain amounts included on the statement of net assets.

Financial Overview

The discussion and analysis are intended to serve as an introduction to the System's basic financial statements. In analyzing the System's financial position, it is important to recognize the mission of the System. As discussed above, the System's core objective is to implement storm water management services for the member communities within Genesee County. The evaluation of the financial data for the System relates to the measurements of the ability for the System to meet its goals by efficient operations as opposed to the ability to accumulate financial resources.

- The assets of the System exceeded its liabilities at the close of the fiscal period by \$920,966 (net assets).
- The System's net assets increased by \$350,272 during the fiscal period.
- Cash and cash equivalents were \$870,293 at fiscal period end.

Genesee County Storm Water Management System

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The System charges its member communities and the County amounts equal to the System's cost of providing storm water management services. For the fiscal year ended December 31, 2005, the charge per each member community, including the County, was \$3.00 per household. The operating plan for the program is set for a five-year cycle. Expenses affecting each member community will vary throughout the five-year timeframe. All fees collected and expenses are recorded per member community. At the end of each fiscal year, the surplus funds remaining from the payments by the County and member communities will be utilized for storm water management activities within their community in the following fiscal year.

The following table represents condensed information about the System's financial position:

	December 31	
	2005	2004
Total assets - Current	\$ 967,733	\$ 608,246
Total liabilities - Current	<u>46,767</u>	<u>37,552</u>
Total net assets - Restricted for storm water management activities	<u>\$ 920,966</u>	<u>\$ 570,694</u>

The following table presents condensed information about the System's revenues and expenses:

	Period Ended December 31	
	2005	2004
Operating Revenue		
Contributions from member communities	\$ 492,972	\$ 619,150
State grant	<u>3,575</u>	<u>-</u>
Total operating revenue	496,547	619,150
Operating Expenses		
Public education and participation	35,312	41,328
Monitoring and mapping	38,118	28,376
Best management practices	<u>92,068</u>	<u>75,202</u>
Total operating expenses	165,498	144,906
Other nonoperating income	<u>19,223</u>	<u>3,472</u>
Change in net assets	<u>\$ 350,272</u>	<u>\$ 477,716</u>

Genesee County Storm Water Management System

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Operating Plans and Rates

The economy of Genesee County over the last several years has been a concern due to local employment conditions. These local conditions are reflective of state and national trends. The Storm Water Management System at this time does not anticipate any amendments to the five-year operating plan adopted by the member communities and the Board. Charges to members for services for fiscal year 2005 will remain in effect for the 2006 fiscal year.

Contacting the System's Management

This financial report is intended to provide our member communities with a general overview of the System's finances and to show the System's accountability for the money it receives from the member communities and the County. If you have questions about this report or need additional information, we welcome you to contact the Genesee County Drain Commissioner.

Genesee County Storm Water Management System

Statement of Net Assets

	December 31	
	2005	2004
Assets		
Cash and cash equivalents (Note 3)	\$ 870,293	\$ 551,052
Due from other governmental units	<u>97,440</u>	<u>57,194</u>
Total assets	967,733	608,246
Liabilities		
Accounts payable	34,017	21,802
Advances from member communities and County	<u>12,750</u>	<u>15,750</u>
Total liabilities	<u>46,767</u>	<u>37,552</u>
Net Assets - Restricted for storm water management activities	<u>\$ 920,966</u>	<u>\$ 570,694</u>

Genesee County Storm Water Management System

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31, 2005	Fifteen Months Ended December 31, 2004
Operating Revenue		
Contributions from member communities	\$ 492,972	\$ 619,150
State grant	3,575	-
Total operating revenues	496,547	619,150
Operating Expenses		
Public education and participation	35,312	41,328
Monitoring and mapping	38,118	28,376
Best management practices	92,068	75,202
Total operating expenses	165,498	144,906
Operating Income	331,049	474,244
Nonoperating Revenue - Interest income	19,223	3,472
Increase in Net Assets	350,272	477,716
Net Assets - Beginning of period	570,694	92,978
Net Assets - End of period	<u>\$ 920,966</u>	<u>\$ 570,694</u>

Genesee County Storm Water Management System

Statement of Cash Flows

	Year Ended December 31, 2005	Fifteen Months Ended December 31, 2004
Cash Flows from Operating Activities		
Cash received from member communities	\$ 408,282	\$ 577,706
Cash received from grants	3,575	-
Cash payments to suppliers for goods and services	(131,481)	(123,104)
Net cash provided by operating activities	280,376	454,602
Cash Flows from Investing Activities - Interest received on investments	19,223	3,472
Net Increase in Cash and Cash Equivalents	299,599	458,074
Cash and Cash Equivalents - Beginning of period	551,052	92,978
Cash and Cash Equivalents - End of period	<u><u>\$ 850,651</u></u>	<u><u>\$ 551,052</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 331,049	\$ 474,244
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:		
Increase in due from members - Quarterly billings	(40,246)	(57,194)
Increase in accounts payable	12,215	21,802
Increase (decrease) in advances from communities	(3,000)	15,750
Net cash provided by operating activities	<u><u>\$ 300,018</u></u>	<u><u>\$ 454,602</u></u>

During the periods above, there were no noncash operating and investing activities.

Genesee County Storm Water Management System

Notes to Financial Statements

Note 1 - Nature of Entity

Genesee County Storm Water Management System (Genesee County Drain Commissioner Division of Surface Water Management) (the "System") was established in March 2001 by the Genesee County Board of Commissioner's Office pursuant to Act 342, Public Acts of Michigan, 1939. The Genesee County Storm Water Management System is responsible for administration services necessary to enable the County and the cities, villages, townships and charter townships located within the county to comply with the Phase II Regulations established by the United States Environmental Protection Agency (EPA) in the Federal Register on December 8, 1999. The Drain Commissioner's Office was designated and appointed as the "County Agency" for the System to manage and operate the system.

Operating Plan Information - A five-year operating plan was adopted on the full accrual basis of accounting. The five-year plan was prepared by the System's director and was adopted by the Genesee County Board of Commissioners and the member communities.

The plan has been adopted on a straight-line basis; expenses are set not to exceed the net assets.

There were no overruns in comparison to the adopted plan at December 31, 2005.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

Basis of Accounting - The accrual basis of accounting is used by the System. The System follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The System has elected not to follow private sector standards issued after November 30, 1989.

Genesee County Storm Water Management System

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Operating Revenue - Operating revenue represents billings to member communities based on the System's five-year operating plan.

Bank Deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Due from Other Governmental Units - Due from other governmental units represents amounts that will be collected from the member communities to pay for the System's operational and administrative costs.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Drain Commissioner has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Drain Commissioner's deposits and investment policies are in accordance with statutory authority.

Genesee County Storm Water Management System

Notes to Financial Statements

Note 3 - Deposits and Investments (Continued)

The Drain Commissioner's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Drain Commissioner's deposits may not be returned to it. The Drain Commissioner does not have a deposit policy for custodial credit risk. At year end, the Drain Commissioner had \$50,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Drain Commissioner believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Drain Commissioner evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Drain Commissioner will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Drain Commissioner does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Drain Commissioner's name:

Type of investment	Carrying Value	How Held
Commercial paper	\$ 590,000	Counterparty's trust department

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Drain Commissioner's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Commercial paper	\$ 590,000	Less than one year

Genesee County Storm Water Management System

Notes to Financial Statements

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Drain Commissioner has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Commercial paper	\$ 590,000	A-1	S&P

Concentration of Credit Risk

The Drain Commissioner places no limit on the amount the Drain Commissioner may invest in any one issuer. More than 5 percent of the System's investments are as follows:

Investment	Fair Value	Percentage
American Express	\$ 200,000	33.9
Prudential	200,000	33.9
General Electric Credit	190,000	32.2

Note 4 - Beginning Net Assets

The System was established in 2001 and received initial funding by contract from the member communities and the County to prepare the application to apply for the NPDES (National Pollutant Discharge Elimination System) permit. The activity prior to October 1, 2003 was as follows:

Received from communities	\$ 120,000
Received from County	120,000
Total revenue	240,000
Expenses	(147,022)
Beginning net assets - October 1, 2003	<u>\$ 92,978</u>

Genesee County Storm Water Management System

Notes to Financial Statements

Note 4 - Beginning Net Assets (Continued)

The net amount of the activity prior to October 1, 2003 resulted in cash and net assets of \$92,978.

Note 5 - Risk Management

The System is exposed to various risks of loss related to property loss, torts and errors and omissions. The System is being operated as part of the Genesee County Drain Commissioner. The Surface Water Management Division of the Genesee County Drain Commissioner's insurance would cover the activities of the System.